

# Fordham Intellectual Property, Media and Entertainment Law Journal

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Volume 22 *Volume XXII*  
Number 4 *Volume XXII Book 4*

Article 2

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2012

## The Balance of Power in Patent Law: Moving Towards Effectiveness in Addressing Patent Troll Concerns

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### Recommended Citation

Ahmed J. Davis and Karolina Jesien, *The Balance of Power in Patent Law: Moving Towards Effectiveness in Addressing Patent Troll Concerns*, 22 Fordham Intell. Prop. Media & Ent. L.J. 835 (2015).  
Available at: <https://ir.lawnet.fordham.edu/iplj/vol22/iss4/2>

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## The Balance of Power in Patent Law: Moving Towards Effectiveness in Addressing Patent Troll Concerns

### Cover Page Footnote

Ahmed J. Davis is a Principal in the Washington, D.C. office and Karolina Jesien is an associate in the New York office, respectively, of Fish & Richardson P.C. The views expressed in this piece are those of the authors alone and should not be ascribed or attributed to the Firm or any of its clients. This article developed from a talk given at made at the Fordham Intellectual Property, Media, and Entertainment Law Journal's 2011 Symposium entitled "IP Bullying or Proactive Enforcement?"

The Balance of Power in Patent Law:  
Moving Towards Effectiveness in  
Addressing Patent Troll Concerns

Ahmed J. Davis and Karolina Jesien\*

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INTRODUCTION

The historical model of companies obtaining patents in order to practice them and business competitors asserting their patents against each other has been transformed. Much more frequently, patent owners are commercially exploiting their patents through licensing and litigation, rather than practicing the underlying inventions. By far, the most prevalent example of this can be seen

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in the rise of non-practicing entities (NPEs), otherwise known pejoratively as patent trolls.<sup>1</sup>

A patent troll is an entity that focuses solely on capitalizing on patent portfolios.<sup>2</sup> The troll purchases or otherwise obtains patents from other companies for purposes of licensing and enforcing them, rather than practicing any inventions covered by those patents. NPEs may acquire patents from companies that are bankrupt, those that no longer practice the patents they own, or those that are seeking revenue from enforcement but lack sufficient capital to do so on their own.<sup>3</sup> A typical business model for an NPE is to acquire patents that apply broadly across a particular industry (often business method patents), identify potential infringers, threaten litigation, and then either collect license fees from those entities or bring lawsuits against those that refuse to license.<sup>4</sup>

Litigating through trial is usually the last resort. An NPE's real objective in bringing suit is to pressure defendants into early settlements.<sup>5</sup> In patent cases, the threat of a permanent injunction historically loomed large because, until relatively recently, injunctions were virtually guaranteed against an adjudged infringer.<sup>6</sup> In cases where NPEs join large numbers of defendants, even modest settlements per defendant quickly add up,

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<sup>1</sup> For the purposes of this article, the terms "patent troll" and "NPE" will be used interchangeably, even though some NPEs may not necessarily be considered patent trolls (e.g. universities, failed companies, individual inventors).

<sup>2</sup> In 2001, NPEs brought approximately one hundred lawsuits targeting five hundred operating companies, while in 2010, the numbers increased to more than five hundred lawsuits targeting over 2,300 operating companies. See *Litigations Over Time*, PATENT FREEDOM, <http://www.patentfreedom.com/research-lot.html> (last visited Feb. 25, 2012) (reporting data obtained as of January 9, 2012).

<sup>3</sup> Vaikhari Rajkumar, *The Effect of Patent Trolls on Innovation: A Multi-Jurisdiction Analysis*, 1 INDIAN J. INTELL. PROP. LAW 33, 35–36 (2008), available at <http://www.commonlii.org/in/journals/INJIPLaw/2008/3.html>.

<sup>4</sup> See *id.* at 34 (defining a patent troll as "[a] company or business function whose primary business activity is to acquire patents for the purpose of offensively asserting them against other companies.").

<sup>5</sup> See *id.* at 34–35.

<sup>6</sup> *Id.* at 38. ("[A] general rule had developed such that virtually automatic permanent injunctions would be issued against any party that was found to have infringed a patent.").

contributing to the troll's "war chest" and allowing them to perpetuate the practice.<sup>7</sup>

Many critics view the patent system as having failed the practicing entity and true research and development (R&D) organizations by allowing trolls to exploit defects in the system. A recent Boston University study asserts that patent trolls have cost innovators over \$500 billion in lost wealth over the last two decades.<sup>8</sup> Since trolls have little incentive to reach cooperative business resolutions given that they do not compete in the marketplace with the alleged infringers, companies effectively are left with two options: take a license to the patents being asserted or litigate. A troll's ability to extract high settlements by playing on the defendants' fears of permanent exclusion from the market has been viewed as a deterrent to innovation.<sup>9</sup> The troll has power under the monopoly granted by a patent, it is said, to pull the plug on an entire operation and possibly drive a (small) company entirely out of the market.<sup>10</sup> Because trolls are non-producing entities, they are immune from infringement countersuits and the coincident bargaining for cross licensing agreements.

What's more, trolls often litigate on a contingent fee basis, which makes them less vulnerable to litigation costs than the companies they are suing. This leaves defendants with high exposure but little bargaining power, which can result in high settlements for trolls, even if the asserted claims are of dubious validity; due to high litigation costs and the high risk to the

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<sup>7</sup> See, e.g., *Why Use Acacia: Typical Arrangement with Patent Holders*, ACACIA RESEARCH GRP. LLC, <http://www.acaciaresearchgroup.com/whyuse.htm> (last visited Feb. 25, 2012). Acacia has been labeled "the mother of all patent trolls." Gene Quinn, *Mother of All Patent Trolls, Acacia Research, Gets More Funding*, IP WATCHDOG (Aug. 10, 2010 2:10 PM), <http://www.ipwatchdog.com/2010/08/10/patent-trolls-acacia-researchfunding/id=12017/>.

<sup>8</sup> James E. Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls* 4 (Boston Univ. Sch. of Law, Working Paper No. 11-45 (Sept. 19, 2011) (Revised November 2011), available at <http://www.bu.edu/law/faculty/scholarship/workingpapers/documents/Bessen-Ford-Meurer-no-11-45rev.pdf> ("Aggregating the change in market capitalization over two decades, we find that the aggregate loss of wealth to these firms exceeds half a trillion dollars.").

<sup>9</sup> Rajkumar, *supra* note 3, at 36.

<sup>10</sup> See, e.g., *id.* at 35 (discussing Pangea Intellectual Properties, a California company that "sent letters to hundreds of small businesses seeking licensing fees of \$25,000 on average.").

practicing entity, settlements tend to occur at the early stages of litigation, before the issue of validity of the claim is even reached. Patent trolls thus are in a unique position that enables them to negotiate licensing fees that are often grossly out of proportion to the contribution they have made to making products or providing services.<sup>11</sup>

In response to the abundance of criticism, the patent system is moving towards effectively responding to systemic concerns raised by patent troll practices. While the marketplace creates incentives for trolls to monetize patents, these are being counterbalanced by the Courts and the legislature, albeit at a slower rate. Over the last few years, the Supreme Court and Federal Circuit have stepped in with rulings aimed at limiting some of the abusive tactics used by NPEs in patent litigation. Congress also has enacted legislation targeted specifically at patent trolls and by committing to study the effect of the new law on troll behavior.

## I. BASICS OF PATENT RIGHTS

The Constitution grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .”<sup>12</sup> Congress has used this power to give inventors “the right to exclude others” from practicing the inventions underlying their patents.<sup>13</sup> Thus, contrary to general belief, a patent grant is not a right to practice an invention *per se* but rather a right to exclude others from practicing it. Thus, Congress gave the inventor—as well as his heirs or assigns—the

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<sup>11</sup> For example, one of the highest settlements came from Research In Motion (RIM), the provider of the BlackBerry, which was sued in 2001 by NTP, an NPE entity, alleging that the BlackBerry infringed on several of its patents. *See* NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1287 (Fed. Cir. 2005). Following a jury verdict of infringement, the trial court issued a permanent injunction, which was stayed pending appeal to the Federal Circuit. The threat of shutting down BlackBerry service to over six million subscribers forced RIM to settle the lawsuit for \$612.5 million. *See* Ian Austen, *BlackBerry Service to Continue*, N.Y. TIMES, March 4, 2006, at C6, available at <http://query.nytimes.com/gst/fullpage.html?res=950DE1DA1431F937A35750C0A9609C8B63>.

<sup>12</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>13</sup> 35 U.S.C. § 154(a)(1).

choice of enforcing a patent or electing not to enforce it, or alternatively licensing or selling it to another for enforcement. There can be little doubt that, even if unintended, the “heirs or assigns” includes patent trolls. Some view them as pariahs and others as vultures, but there is a case to be made that even vultures play a role in a well-functioning society.<sup>14</sup>

When Abraham Lincoln stated in 1859 that “the patent system added the fuel of interest to the fire of genius,”<sup>15</sup> he likely did not envision the system that currently exists. In the 1800s, there was a notion that patent rights were granted to those who would contribute to the greater good by increasing the public store of knowledge, ultimately making something useful.<sup>16</sup> But the benefit afforded patentees was to recognize and encourage innovation.<sup>17</sup> Almost two hundred years later, patent trolls have come along and changed the game by monetizing patents in a different way, but in a way that spurs innovation no less.

While a patentee/inventor essentially holds a limited monopoly for a time, issuance alone does not realize the economic potential or economic benefit of a patent. A patent needs to be enforced to be monetized. If the cost of enforcement is too high, the market dictates that the patent owner will either not take steps to enforce the patent or will sell or license the patent to another entity that has the resources to enforce it.<sup>18</sup> By creating this incentive to exchange goods and maximize profits, the market has helped patents evolve from mere exclusionary instruments into assets that have value.

This is evidenced by the recent high settlements (e.g. the RIM settlement mentioned earlier), high monetary awards for

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<sup>14</sup> See, e.g., Bessen et al., *supra* note 8, at 6; *Patent Thickets and Patent Trolls*, VOLOKH CONSPIRACY, <http://volokh.com/posts/1241494164.shtml> (last visited Feb. 28, 2012).

<sup>15</sup> OECD-BMBF WORKSHOP ON GENETIC INVENTIONS, IPRS, AND LICENSING PRACTICES, THE PATENTABILITY OF GENETIC INVENTIONS IN EPO PRACTICE (2002), available at <http://www.oecd.org/dataoecd/3/27/1820221.pdf>

<sup>16</sup> See Oren Bracha, *The Commodification of Patents 1600-1836: How Patents Became Rights and Why We Should Care*, 38 LOY. L.A. L. REV. 177, 183–91 (2004), available at <http://digitalcommons.lmu.edu/cgi/viewcontent.cgi?article=2450&context=llr>.

<sup>17</sup> See *id.*

<sup>18</sup> See generally Anupam B. Jena & Tomas Philipson, *Cost-Effectiveness as a Price Control*, 26 HEALTH AFFAIRS 696 (2003).

infringement, and high price tags paid for patent acquisitions. In June 2011, the Supreme Court upheld a \$290 million award against Microsoft in a patent dispute brought by a Canadian software company, i4i Limited Partnership, claiming that Microsoft Word infringed its patent.<sup>19</sup> Also in June 2011, Canadian telecommunications equipment maker Nortel Networks sold more than 6,000 patent assets to an alliance made up of Apple, Microsoft, and other technology companies for \$4.5 billion.<sup>20</sup>

The question is: why is this problematic? Given that we live in a society that is based on a free market, the market ought to correct itself if troll activity presents a problem. In fact, there is a plausible argument that troll activities make the market more efficient by dealing with the enforcement and licensing processes and allowing inventors to focus on inventing. It could also be argued that trolls actually foster innovation by providing liquidity and ensuring that independent inventors are compensated for their inventions. In reality, the courts and Congress take the opposite perspective, responding to the troll situation through rulings and legislation that curb those troll practices that are viewed as problematic.

## II. THE SUPREME COURT STEPS IN

One of the most significant changes to the patent troll landscape is the Supreme Court's ruling in *eBay Inc. v. MercExchange, LLC*.<sup>21</sup> Until *eBay*, permanent injunctions were virtually guaranteed in patent cases.<sup>22</sup> This provided patent trolls with a very powerful tool and enabled them to extract large settlement payments from practicing entities, for which the threat

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<sup>19</sup> Adam Liptak, *Microsoft Loses Appeal in \$290 Million Patent Case*, N.Y. TIMES, June 10, 2011, at B4, available at [http://www.nytimes.com/2011/06/10/business/10bizcourt.html?\\_r=1](http://www.nytimes.com/2011/06/10/business/10bizcourt.html?_r=1).

<sup>20</sup> Chris V. Nicholson, *Apple and Microsoft Beat Google for Nortel Patents*, N.Y. TIMES DEALBOOK (JULY 1, 2011, 8:30 PM), <http://dealbook.nytimes.com/2011/07/01/apple-and-microsoft-beat-google-for-nortel-patents/>.

<sup>21</sup> 547 U.S. 388 (2006).

<sup>22</sup> *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (“Although the district court’s grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted.”) (internal citations omitted).



of being enjoined was too great to risk. In 2006, the Supreme Court expressly rejected the Federal Circuit's articulation of "'a general rule,' unique to patent disputes, 'that a permanent injunction will issue once infringement and validity have been adjudged.'"<sup>23</sup> The Court made clear that patent owners, like everyone else, must satisfy the traditional four-factor test<sup>24</sup> to get a permanent injunction, including irreparable harm, a difficult factor for an NPE to prove.

The *eBay* decision shifted significant leverage away from NPEs, as practicing entities have less incentive to settle early in the case because there is no longer the threat of a looming injunction. Especially where they can economically sustain a monetary damages award, practicing entities may be more likely to continue litigating and see cases through to the merits. The Supreme Court's awareness of the patent troll issue is evidenced in Justice Kennedy's concurring opinion in *eBay*, where he recognized that "[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."<sup>25</sup> Justice Kennedy acknowledged that "[f]or these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."<sup>26</sup>

Courts have continued to grant injunctions in patent cases after *eBay*, but only within the proper framework. In applying the four-factor test, for example, courts are considering whether the plaintiff is competing in the marketplace with the accused infringer, thus exhibiting a more stringent treatment of NPEs over

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<sup>23</sup> *eBay*, 547 U.S. at 393–94 (citing *Mercexchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)).

<sup>24</sup> *Id.* at 391.

A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction..

*Id.*

<sup>25</sup> *Id.* at 396 (Kennedy, J., concurring).

<sup>26</sup> *Id.* (Kennedy, J., concurring).

companies that actually practice their patents. Indeed, courts are more likely to find irreparable harm and inadequacy of monetary damages, and thus issue an injunction, where parties are competitors.<sup>27</sup> On the other hand, when parties do not compete and the patentee has a history of licensing the patent, courts are less likely to issue an injunction because monetary damages are likely sufficient.<sup>28</sup>

### III. THE FEDERAL CIRCUIT STEPS IN

The Federal Circuit has also taken a more active role in tailoring precedent to the changing legal landscape with respect to trolls. In recent years, we have seen developments in the areas of willfulness, declaratory judgments, venue, and fee-shifting that indicate an acknowledgement by the court that it has a role in balancing the rights of practicing entities against patent trolls.

#### A. *Willful Infringement and Enhanced Damages*

The Federal Circuit has significantly altered the standard governing willful infringement and limited the circumstances for awarding enhanced damages. In rejecting the previous “duty of care” willfulness standard, the Federal Circuit in *In re Seagate* held that “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness”; that is, “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”<sup>29</sup> Once this standard is satisfied, the patentee must further show that “this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”<sup>30</sup> This decision works against patent trolls in two ways. First, it lowers the risk of

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<sup>27</sup> See *Fresenius Med. Care Holdings, Inc. v. Baxter Int’l, Inc.*, 2008 WL 928496, at \*3 (N.D. Cal. Apr. 4, 2008) (“Courts routinely find irreparable harm, and therefore grant permanent injunctions where, as here, the infringer and the patentee are direct competitors.”).

<sup>28</sup> See generally, e.g., *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (finding that licensing company did not demonstrate irreparable harm and that any harm could be remedied by monetary damages).

<sup>29</sup> *In re Seagate Techn., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

<sup>30</sup> *Id.*

a finding of willful infringement by the accused infringer. Second, it also lowers the possibility that a judge or jury will award enhanced damages against an accused infringer. This is significant, on the heels of the *eBay* case, because it further curtails the leverage that trolls have historically exerted against practicing entities.

### *B. Declaratory Judgment*

Another way the Federal Circuit has singled out patent trolls is in lowering the standard for a case or controversy that arises in declaratory judgment contexts. In *Hewlett-Packard v. Acceleron*, Hewlett-Packard (“HP”) sued a patent holding company for declaratory judgment of non-infringement after it received a letter from Acceleron to “call [HP’s] attention to” a patent acquired by Acceleron and asking for “an opportunity to discuss this patent” with HP.<sup>31</sup> After Acceleron disregarded HP’s proposal of a mutual standstill agreement, HP brought the declaratory judgment suit. The Federal Circuit found that Acceleron’s actions were sufficient to support a declaratory judgment action, a decision which the court recognized “undoubtedly marks a shift from past declaratory judgment cases.”<sup>32</sup> Most notably, the court “observe[d] that Acceleron is solely a licensing entity, and without enforcement it receives no benefits from its patents.”<sup>33</sup> The court explained that “[t]his adds significance to the fact that Acceleron refused HP’s request for a mutual standstill,” and held that, based on the facts of the case, “when viewed objectively and in totality,” there was a “definite and concrete dispute between HP and Acceleron,” thus giving rise to declaratory judgment jurisdiction.<sup>34</sup> This holding suggests a lower bar for declaratory judgment jurisdiction when the patentee is a patent holding company.

### *C. Transfer*

The Federal Circuit also has limited another tool used by patent trolls to gain an advantage over practicing entities—venue. A

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<sup>31</sup> *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1360 (Fed. Cir. 2009).

<sup>32</sup> *Id.* at 1364.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

common tactic used by trolls has been to bring suits in the patentee-friendly Eastern District of Texas against large numbers of defendants that are scattered throughout the country such that there is no other venue that could be more convenient for the majority of the defendants. More often than not, the NPEs have no real ties to the Eastern District of Texas but it is a desirable forum for patent holders. Over the past two years or so, the Federal Circuit has taken notice and has been removing cases filed by trolls out of Eastern District of Texas via writ of mandamus, notwithstanding the extraordinary nature of such a request.

For example, in April 2011, the Federal Circuit granted a petition for writ of mandamus sought by forty-one defendants (all in the finance industry) that were sued for patent infringement by Realtime Data, LLC, an NPE headquartered in New York.<sup>35</sup> The petitioners had moved to transfer the case to the Southern District of New York where the plaintiff and twenty-seven defendants were located. Similarly, in November 2010, the Federal Circuit granted Microsoft's petition for a writ of mandamus from an order denying a motion to transfer a patent infringement lawsuit brought by Allvoice Developments.<sup>36</sup> Allvoice, a licensing company based in the United Kingdom, incorporated in Texas sixteen days before filing the suit and opened an office in Texas even though it did not employ any individuals in that office, or anywhere else in the U.S. for that matter. Also in November 2010, the Federal Circuit granted Oracle Corp.'s petition for writ of mandamus to vacate the denial of a motion to transfer the patent infringement suit filed by the patent holding company Financial Systems Technology (Intell. Property). Despite the parties having previously entered into an agreement that identified the Eastern District of Texas as the venue for future litigation between them, the Federal Circuit held that the district court's reliance on this fact alone in denying transfer was plainly incorrect as a matter of law. These are only a few of a long line of recent cases in which the Federal Circuit has ordered a case to be transferred out of the Eastern District of Texas to a more

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<sup>35</sup> *In re Morgan Stanley et. al*, Misc. Nos. 962, 964, 967, 2011 WL 1338830, at \*1 (Apr. 6, 2011).

<sup>36</sup> *See In re Microsoft Corp.*, 630 F.3d 1361, 1362 (Fed. Cir. 2011).

convenient forum.<sup>37</sup> The impact of these decisions removes a typical arrow from the trolls' quiver, creating a more level playing field between patent trolls and the practicing entities should the cases ultimately make it to a jury trial.

#### *D. Exceptional Case*

In a clear expression of disdain for the practice of patent trolls, the Federal Circuit on July 29, 2011 unanimously upheld a finding of an exceptional case and awarded \$489,000 in attorney fees and \$141,000 in Rule 11 sanctions in a patent infringement suit brought by Eon-Net, a patent holding company, against Flagstar Bancorp.<sup>38</sup> The finding was based on Eon-Net's litigation misconduct, lack of pre-filing due diligence, and the filing of a baseless litigation in bad faith.<sup>39</sup> The court found that "Eon-Net acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement from Flagstar."<sup>40</sup> The court specifically pointed to the fact that Eon-Net had "filed over 100 lawsuits against a number of diverse defendants alleging infringement of one or more patents from the Patent Portfolio," and that "[e]ach complaint was followed by a 'demand for a quick settlement at a price far lower than the cost of litigation, a demand to which most defendants apparently have agreed.'"<sup>41</sup> In addition, the court criticized Eon-Net for "the ability to impose disproportionate discovery costs on Flagstar . . . at least in part, because accused infringers often possess enormous amounts of potentially relevant documents that are ultimately collected and produced."<sup>42</sup> Further, "Eon-Net placed little at risk when filing suit [because] [a]s [an NPE], Eon-Net was generally immune to counterclaims for patent infringement, antitrust, or unfair competition because it did not engage in business activities that

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<sup>37</sup> See, e.g., *In re Nintendo Co.*, 589 F.3d 1194, 1196 (Fed. Cir. 2009); *In re Hoffmann-La Roche, Inc.*, 587 F.3d 1333, 1335 (Fed. Cir. 2009); *In re Genentech, Inc.*, 566 F.3d 1338, 1348 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315, 1317 (Fed. Cir. 2008).

<sup>38</sup> *Eon-Net LP v. Flagstar Bancorp.*, 653 F.3d 1314, 1317 (Fed. Cir. 2011) (en banc).

<sup>39</sup> *Id.* at 1326–28.

<sup>40</sup> *Id.* at 1327.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

would potentially give rise to those claims.”<sup>43</sup> Although it was based on a specific set of facts, this decision could put patent trolls at risk of facing significant litigation penalties for engaging in the traditional business model of filing numerous lawsuits and demanding quick settlements.

While this specifically relates to trolls, at least one Federal Circuit judge has advocated the importance of bi-lateral application of this provision to patent “grasshoppers” as well as trolls. In his September 2011 “State of Patent Litigation” address to the Eastern District of Texas Judicial Conference, Chief Judge Rader explained that both sides have the responsibility to police themselves and that fee-shifting would go a long way to advancing that goal:

Every “troll” discussion, however, needs a note of balance. Just as trolls litter the patent system with marginally meritorious lawsuits, so the system also suffers from the IP “grasshopper” [which is] the entity that is quick to steal the “inventor-ant’s” work and research investment [and] refuses to pay any license fee until his legs and claws are held to the proverbial litigation fire . . . A grasshopper is any entity which refuses to license even the strongest patent at even the most reasonable rates. Frankly, I am not sure who causes more meritless litigation—the troll asserting patents beyond their value or the grasshopper refusing to license until litigation has finally made it impossible to avoid.<sup>44</sup>

As Judge Rader articulated, a “fullscale reversal” of fees and costs would go a long way to remedial treatment of litigation abuses.

#### IV. THE INTERNATIONAL TRADE COMMISSION

In view of the threat that *eBay* caused to the traditional patent troll business model, the hottest current battleground between trolls

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<sup>43</sup> *Id.*

<sup>44</sup> Chief Judge Randall R. Rader, *The State of Patent Litigation*, E.D. Texas Judicial Conference (2011), <http://www.patentlyo.com/files/raderstateofpatentlit.pdf>.

and practicing entities is at the United States International Trade Commission (ITC), a federal agency that adjudicates allegations of intellectual property infringement to determine any impact on domestic industry. The ITC has the authority to issue exclusion orders that direct U.S. Customs to stop infringing products from entering the U.S. and to issue cease and desist orders against importers and others that engage in unfair competition.<sup>45</sup> Because the ITC is an administrative agency granting remedies under 19 U.S.C. § 1337 and not the Patent Statute, the Supreme Court's *eBay* holding does not apply. Thus, although there are no monetary damage awards available, the threat of an exclusion order prohibiting importation of a particular good can be very effective in driving settlements from practicing entities.

The current hot issue at the ITC relates to what qualifies as a "domestic industry." In April 2010, the ITC held that the litigation costs incurred while enforcing patents in multiple district court lawsuits, which result in patent licenses, are enough to qualify as a domestic industry.<sup>46</sup> But the Federal Circuit has already stepped in and imposed some limitations on this holding. In *Mezzalingua Associates, Inc. v. ITC*, the Federal Circuit affirmed an ITC ruling that the appellant did not satisfy the "domestic industry" requirement under 19 U.S.C. § 337(a)(3)(C), which provides that the requirement is satisfied when there is "substantial investment in [the patent's] exploitation, including engineering, research and development, or licensing."<sup>47</sup> According to the Federal Circuit, a single license granted for the asserted patent by the appellant, and the years of litigation costs leading up to the execution of the license, were not sufficient to satisfy the domestic industry requirement because the costs were not all incurred with the objective to obtain a license (other objectives included obtaining an injunction) and, as a result, the investment in licensing was not

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<sup>45</sup> *What the USITC Is . . . and Isn't*, U.S. INT'L TRADE COMM'N, [http://www.usitc.gov/press\\_room/gen\\_info.htm](http://www.usitc.gov/press_room/gen_info.htm) (last visited Apr. 4, 2012).

<sup>46</sup> Certain Coaxial Cable Connectors and Components Thereof and Prods. Containing Same, Investigation No. 337-TA-650 (ITC Apr. 14, 2010) (public version), *available at* [http://thepriorart.typepad.com/the\\_prior\\_art/2010/ITC.650.decision.pdf.pdf](http://thepriorart.typepad.com/the_prior_art/2010/ITC.650.decision.pdf.pdf).

<sup>47</sup> *John Mezzalingua Assocs., Inc. v. Int'l Trade Comm'n*, 660 F.3d 1322, 1324 (Fed. Cir. 2011).

“substantial.”<sup>48</sup> Although this ruling likely will not affect licensing companies incurring substantial litigation costs, it could have an effect on smaller-scale licensing companies and NPEs that have few licensing deals but high litigation costs.

## V. CONGRESS ENACTS THE AIA

There can be little doubt that Congress had NPEs in mind when it passed the Leahy-Smith America Invents Act (AIA), which was signed into law by President Obama on September 16, 2011. Section 34 of the AIA expressly provides that “[t]he Comptroller General of the United States shall conduct a study of the consequences of litigation by [NPEs], or by patent assertion entities, related to patent claims made under title 35, United States Code, and regulations authorized by that title.”<sup>49</sup> Such a study “shall” include “[t]he economic impact of such litigation on the economy of the United States, including the impact on inventors, job creation, employers, employees, and consumers” and “[t]he benefit to commerce, if any, supplied by [NPEs] or patent assertion entities that prosecute such litigation.”<sup>50</sup>

The most immediate impact on NPEs will be newly added 35 U.S.C. § 299 (Section 19 of the AIA), limiting joinder in a single suit of unrelated parties. As already mentioned, it has become common for NPEs to file patent infringement actions against large numbers of defendants with little in common in terms of their industry or the products or services they provide. As part of this tactic, NPEs select defendants located throughout the U.S. and not concentrated in any particular area, such that there is no single venue convenient for the majority of defendants. Some courts have been more tolerant of this tactic than others, one example being the patentee-friendly Eastern District of Texas, where juries are also likely to award generous damages. Whereas allowing for joinder of multiple defendants in a single action had been intended to serve to enhance efficiency in litigation where certain factual

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<sup>48</sup> *Id.* at 1341.

<sup>49</sup> Leahy-Smith America Invents Act, Pub. L. 112-29 § 34(a), 125 Stat. 284 (2011) (codified in sections of 35 U.S.C.).

<sup>50</sup> *Id.* at § 34(b)(5) and (6).



questions were shared among all defendants, the NPEs have used this tool as a means to force defendants to act collectively and inhibit each defendant's ability to protect its own interests on its own terms. The AIA appears to have taken this advantage away from the NPEs.

The new section 299 provides that in a patent infringement action,

parties that are accused infringers may be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, or counterclaim defendants only if—(1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and (2) questions of fact common to all defendants or counterclaim defendants will arise in the action.<sup>51</sup>

Indeed, section 299 requires that there be another basis for joinder beyond an allegation that all defendants have infringed the same patent: “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.”<sup>52</sup> It also appears that Congress has recognized that there exist circumstances where defendants may find strength in large numbers and an ability to achieve efficiencies through cooperation, and has accordingly provided defendants with an option to waive the requirements of Section 299.<sup>53</sup>

As a practical effect, NPEs will no longer be able to capitalize on economies of scale and will likely be forced to file as many patent infringement lawsuits as there are defendants. This means

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<sup>51</sup> *Id.* at § 19.

<sup>52</sup> 35 U.S.C. § 299(b) (2006).

<sup>53</sup> 35 U.S.C. § 299(c) (“A party that is an accused infringer may waive the limitations set forth in this section with respect to that party.”).

that each lawsuit will likely be filed in (or ultimately transferred to) the venue where each defendant has its principal place of business or is organized. The new law greatly reduces the efficiencies that NPEs had created by asserting a single patent against a laundry list of defendants. More importantly, however, the new law will cause the validity of the asserted patent to be placed at risk every time the patent is asserted.

It is also clear that Congress does not necessarily believe that its work is done with respect to the troll situation. The AIA requires the Comptroller General to submit, one year after the enactment of the AIA, a report with the results of the study mentioned above “including recommendations for any changes to laws and regulations that will minimize any negative impact of patent litigation that was the subject of such study.”<sup>54</sup> Thus, Congress appears to anticipate that further changes to the patents laws and regulations may be needed down the road, depending on the effect that the AIA will have on NPEs. This is at least an indication that Congress is keeping a close eye on the practices of NPEs and their economic impact, and that it will continue to modify the law as change becomes necessary.

#### CONCLUSION

Despite criticism of the patent system in the context of patent troll concerns, the law is moving inexorably to where it needs to be. There is a tradeoff occurring—the NPEs file the cases and Congress and the courts are stepping in where necessary. The reality is, and the market dictates, that patent trolls will continue to find ways to navigate the patent laws in an attempt to monetize patents. But recent decisions of the Supreme Court and Federal Circuit, and the America Invents Act that was recently passed by Congress, provide stronger tools for targets to attack and/or protect themselves against patent trolls.

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<sup>54</sup> Leahy-Smith America Invents Act, Pub. L. 112-29 § 34(c), 125 Stat. 284 (2011) (codified in section of 35 U.S.C.) (emphasis added).